WC 07-19

JSI John Staurulakis
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FILED/ACCEPTED
FEB - 2 2007
Federal Communications Commission
Office of the Secretary

January 17, 2007

By Hand Delivery

Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
c/o Natek, Inc., Inc.
236 Massachusetts Avenue, N.E. Suite 110
Washington, DC 20002

**Re: Riviera Telephone Company, Inc.
Study Area Code 442134**

Dear Ms. Dortch:

On behalf of Riviera Telephone Company, Inc., Inc. ("Riviera"), John Staurulakis, Inc. ("JSI") respectfully submits the attached letter from Mr. Bill C. Colston, Jr., President/General Manager, Riviera, to Albert Lewis, Acting Division Chief, Pricing Policy Division including JSI's cover letter to Mr. Lewis. Four copies of the original are also provided. The letters are for the purpose of requesting that the Commission grant Riviera authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410 – Other noncurrent assets.

Please direct any inquiries or requests regarding Riviera's request to the undersigned.

Sincerely,

Scott Duncan

Scott Duncan
JSI Staff Director-Regulatory Affairs
301-459-7590
sduncan@jsitel.com

Attachments
cc: Douglas Slotten, FCC Pricing Policy Division (by email).
Bill C. Colston, Jr., Riviera

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January 17, 2007

By Hand Delivery

Mr. Albert Lewis
Acting Division Chief, Pricing Policy Division
Federal Communications Commission
Room A225
445 12th Street SW
Washington, DC 20554

Re: Riviera Telephone Company, Inc.
Study Area Code 442134

Dear Mr. Lewis:

On behalf of Riviera Telephone Company, Inc. ("Riviera"), John Staurulakis, Inc. ("JSI") respectfully submits the attached letter from Mr. Bill C. Colston, Jr., President/General Manager, Riviera, requesting that the Commission grant Riviera authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410 – Other noncurrent assets.

Please direct any inquiries or requests regarding Central Texas' request to the undersigned.

Sincerely,

Scott Duncan
JSI Staff Director-Regulatory Affairs
301-459-7590
sduncan@jsitel.com

Attachments
cc: Douglas Slotten, FCC Pricing Policy Division
Bill C. Colston, Jr., Riviera

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Riviera Telephone Company, Inc.

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361-296-3232 • Fax # 361-296-3125
E-Mail: rtc@rivnet.com • www.rivnet.com

December 29, 2006

Mr. Albert Lewis,
Acting Division Chief, Pricing Policy Division
Federal Communications Commission
Room A225
445 12th Street SW
Washington, DC 20554

Re: Riviera Telephone Company, Inc. – Study Area Code 442134

Dear Mr. Lewis:

By this letter, Riviera Telephone Company, Inc. ("Riviera") respectfully requests that the Commission grant Riviera authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, Other noncurrent assets. Riviera is a rate-of-return incumbent local exchange carrier ("ILEC") and participates in the National Exchange Carrier Association ("NECA") common line and traffic sensitive pools. Riviera serves approximately 1,200 lines in rural Texas. As a pool participant, Riviera is an issuing carrier for the NECA access tariff, NECA Tariff F.C.C. No. 5 and bills rates pursuant to the tariff. Riviera engages John Staurulakis, Inc. ("JSI"), *inter alia*, to assist in completing its annual cost studies for purposes of reporting to the NECA pools. Riviera's rate base affects determination of its revenue requirement for each of the NECA pools.

Background

Riviera's request is similar to that made by Roosevelt County Rural Telephone Cooperative Inc. ("Roosevelt") in a letter to the Wireline Competition Bureau dated October 25, 2004.[1] In its letter, Roosevelt requested Commission approval to include in its rate base the interstate portion of prepaid post-retirement health benefits recorded in Account 1410. On March 14, 2006, the Commission released an order granting Roosevelt's request.[2]

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[1] See letter from Scott Arnold, General Manager, Roosevelt County Rural Telephone Coop., Inc. dated October 25, 2004.

[2] *Roosevelt County Rural Telephone Cooperative, Inc. Petition to Include the Interstate Portion of a Prepaid Accumulated Post-Retirement Benefit Obligation, Recorded in Account 1410, in the Rate Base,* WCB/Pricing 05-31, Order, FCC 06-31 (rel. March 14, 2006) ("*Roosevelt OPEB Order*").

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As a benefit to its employees, Riviera offers post-retirement health benefits. The Commission and industry generally refer to such benefits as "other post-retirement employee benefits" or "OPEBs." This benefit is funded through a pre-funding trust sponsored by the National Telephone Cooperative Association ("NTCA"). As of December 31, 2005, Riviera's audited financial statements reflect an OPEB-related prepaid balance in Account 1410 of $173,586, of which $144,733 represents prepaid post-retirement health benefits. Following is a summary of the prepaid post-retirement health benefits portion of the combined SFAS 106[3] disclosure amount of $144,733.

Summary of 12/31/2005 Riviera Accumulated Post-Retirement Benefit Obligation ("APBO") Applicable to Health Benefits

	12/31/2005 Annual Report Balance
Accumulated Postretirement Benefit Obligation (APBO)	$ 457,002
Less: Unamortized Initial Obligation	112,756
Unamortized Actuarial Losses	126,205
Net Accumulated Post-Retirement Benefit Obligation (Net APBO)	218,041
Plan Assets at Fair Value	362,774
Prepaid APBO (Plan Assets less Net APBO)	$ 144,733

Request

In accordance with section 65.820(c) of the Commission's rules, Riviera seeks approval to include the interstate portion of the prepaid APBO applicable to health benefits in its rate base. For the 2005 cost study, the addition to the <u>average</u> rate base would be approximately $145,000 based on beginning and ending 2005 balances. The estimated interstate access portion of $145,000 for the 2005 cost study year would be $53,000 (based on the 2005 cost study 36.6% interstate factor for Account 1410). The estimated interstate return on the interstate portion of the prepaid APBO would be $8,000 at the current 11.25% interstate rate of return. Based on its relatively small size, $8,000 annually is significant to Riviera. However, Riviera believes any impact on overall NECA pool revenue requirements or universal service funding would be *de minimis*.

3 Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

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3 Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

Section 65.820(c) of the Commission's rules allows inclusion of amounts accounted for in Account 1410, "only to the extent that they have been specifically approved by this Commission for inclusion."[4] In its 1997 *Part 65 OPEB Treatment Order*, the Commission established that where a carrier "can show that any of its assets recorded in Account 1410 (including prepaid OPEB) meet the used-and-useful standard, we will allow that asset to be included in the interstate rate base."[5] Thus, Riviera requests that the Commission grant authority pursuant to Section 65.820(c) to Riviera for inclusion of the prepaid post-retirement health benefits residing in Account 1410, Riviera provides the following to establish that its prepayments meet the used-and-useful standard.

As communicated to Riviera by the trustee for its OPEB plans, NTCA, prefunding serves to reduce annual expense for OPEBs. A copy of the trustee's letter is attached. As a rate-of-return carrier, the interstate portion of the reduced expenses will reduce Riviera's future interstate revenue requirements and, in turn, the rates paid by interstate access customers. In the *Roosevelt OPEB Order* the Commission found that Roosevelt's prepaid post-retirement health benefits met the used-and-useful standard and granted authority to Roosevelt to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, beginning with the date the prepayments were made. Riviera's situation with respect to prepaid post-employment health benefits recorded in Account 1410 is reflective of Roosevelt's circumstances. Therefore, Riviera believes that it has satisfied the used-and-useful standard for inclusion of the interstate portion of prepaid post-retirement health benefits in the rate base.

Based on meeting the used-and-useful standard with respect to its prepayment of post-retirement health benefits, Riviera respectfully requests that the Commission, as it did in response to Roosevelt's request, grant Riviera authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, beginning with the date the prepayments were made.

Please direct any requests for information or questions to:

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4 47 C.F.R. § 65.820(c).

5 *Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base*, CC Docket No. 96-22, AAD 92-65, Report and Order, 12 FCC Rcd 2321, FCC 97-56 (Rel. Feb 20, 1997) ("*Part 65 OPEB Treatment Order*") at par. 12.

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John Kuykendall, Director – Regulatory Affairs
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Sincerely,

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Attachments

Federal Communications Commission
Wireline Competition Bureau-Pricing Policy Division
December 29, 2006

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Sincerely,

Bill C. Colston, Jr.
President/General Manager
Riviera Telephone Company, Inc.

Attachments

NTCA

The Voice of Rural Telecommunications

May 8, 2006

Memorandum

TO: Judy Colston

FROM: Lisa Altman, Sr. FAS 106 Technician

SUBJECT: Riviera Telephone

On May 8, 2006, we discussed the FAS 106 liability and how that liability is impacted by the 106 Prefunding in which Riviera Telephone participates. This prefunding does play a partial role in lessening the overall FAS 106 liability of the company. This reduction of the liability manifests itself in several ways:

1. The Expected Rate of Return on Assets (determined by Lake Consulting Inc., the FAS 106 Program) is historically set as to what the return would be over a 30-year period depending on the investment philosophy of the prefunding Trusts. The FAS 106 statement requires that we use the Expected Return on Assets when performing the FAS calculation. This Expected Return on Assets is included in the Net Periodic Postretirement Benefit Cost section of the FAS 106 valuation and in this calculation the expected return reduces the liability which in return reduces the annual expense for that particular year.

2. The Total Assets on deposit as of the first day of the year are also included in the calculation process. The Assets reduce the Accumulated Postretirement Benefit Obligation (APBO) creating the Unfunded APBO figure. This Unfunded APBO has several areas of impact, including interest calculations, the Accrued/Prepaid figure and the Net Loss/Gain Calculations.

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3. The prefunding account also has a direct impact on the Financial Statements of the company. As the Assets on deposit accrue earning (either negative or positive), the company would have this asset to offset the liability that would be accruing on the financial statements.

These are a few of the advantages of FAS 106 Prefunding and how they impact the FAS 106 liability being reflected on the financial statements. If you have further questions, do not hesitate to contact me by phone at (828) 255-2972 or by e-mail at lbennie-altman@ntca.org.

LBA
CC: Deborah Gilmore
John Staurulakis, Inc.

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